

338.71
-lmbb
1987

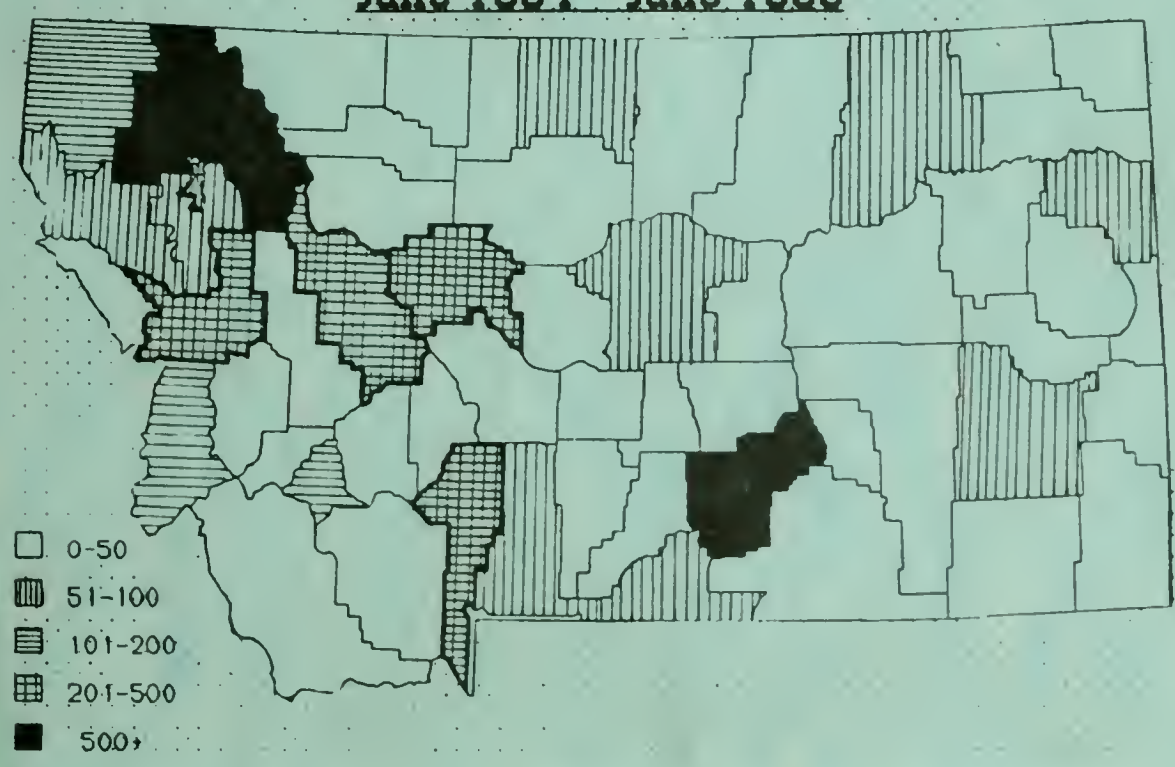
201
6/2/87
MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

MONTANA

BUSINESS BIRTH-DEATH STUDY

1984 TO 1986

Number of New Businesses by County
June 1984 - June 1986

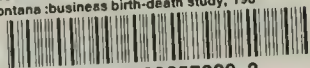


S
338.71
L1mbb
1987
copy 1

MONTANA STATE LIBRARY

S 338.71 L1mbb 1987 c.1

Montana :business birth-death study, 198



3 0864 00057209 2

87-601 202

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT POLICY DIVISION



TED SCHWINDEN, GOVERNOR

P O BOX 1728

STATE OF MONTANA

(406)444-2430

HELENA, MONTANA 59624

January 1987

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Dear Reader:

This publication reports the findings of the Business Birth-Death Study conducted over a three month period starting July 1, 1986. The study tracked the progress of businesses that became liable for unemployment insurance coverage between 1984 and 1986. The findings provide insight into size, locations and types of new businesses started in Montana during recent years. This report also provides information about deaths of new businesses, setting forth some reasons for closures and probable survival rates of new businesses.

The study of new businesses was conducted under special contract with the U.S. Department of Labor, Bureau of Labor Statistics. I hope this publication is useful to you. Please contact this office if you would like further information.

Sincerely,

A handwritten signature in cursive script that reads "Bob Rafferty".

Bob Rafferty, Chief
Research & Analysis Bureau

BR/GH:ms

**MONTANA
BUSINESS BIRTH-DEATH STUDY**

1984 TO 1986

STATE OF MONTANA
TED SCHWINDEN, GOVERNOR

DEPARTMENT OF LABOR AND INDUSTRY
MARY M. (PEG) HARTMAN, ACTING COMMISSIONER

January 1987

Produced by:

Research and Analysis Bureau
Employment Policy Division
Department of Labor & Industry
in cooperation with the
U.S. Department of Labor
Bureau of Labor Statistics

For more information contact:

Bob Rafferty, Chief
Research and Analysis Bureau
Employment Policy Division
Department of Labor & Industry
P.O. Box 1728
Helena, MT 59624
Phone (406) 444-2430

Table of Contents

	<u>Page</u>
Introduction	1
New Businesses	2
Identification and Processing	4
Registration Log Time	7
New Businesses by Industry and County	9
Comparison of New Businesses to Population by County	13
New Businesses by Month	14
Employment Levels of New Businesses	15
Account Cancellation	18
Business Deaths Survey	23
Survival Rate of New Businesses	27
The ES-202 Employment, Wages and Contributions Report	29
Relationship of Subject Date-Input Date Log Time to the ES-202 Report	31
Summary	32

The business birth-death study, conducted by the Employment, Wages, and Contributions Unit, Research and Analysis Bureau of the Montana Department of Labor and Industry in cooperation with the United States Bureau of Labor Statistics studied the actions involved in the processing of new businesses within the Montana unemployment insurance system. The study had several objectives.

1. The documentation of the process by which a new business is identified and processed into the unemployment insurance system.
2. An examination of the effectiveness and timeliness of current procedures.
3. The gathering of information concerning the types of new businesses coming into the system.
4. Examining the possibility of the changing or emergence of trends different from those indicated by current research done in the area of new businesses.
5. Determining the effect of current unemployment insurance procedures on the Employment, Wages, and Contributions (ES-202) Report.
6. Identifying what steps are taken when a business becomes defunct.

This study was limited to new businesses registering with the Montana Department of Labor and Industry Unemployment Insurance Division, between the period of June, 1984 to June, 1986. The data presented is concerned solely with these businesses and does not represent the overall Montana business community.

New Businesses

The Montana unemployment insurance employer contribution file was used to identify businesses which had registered within the period June 1, 1984 through June 30, 1986. This time period was chosen for the following reasons:

- 1) to ensure that the most recent data available was included
- 2) to limit the accounts to a workable number
- 3) to provide a large enough amount of data to be considered credible

The unemployment insurance employer contribution file is a data bank maintained by the state which contains unemployment insurance tax information on all registered employers who are covered by the state's unemployment insurance laws (Title 39, Chapter 51 of the Montana Code Annotated).

The employer is subject to the Montana unemployment insurance law when the employer meets one or more of the following criteria:

- a) the employer's total annual payroll for the current or preceding calendar year exceeds \$1000.00 (Total payroll is all wages paid to all employees.)
- b) the employer acquired all or a portion of a business which is presently subject to the Montana unemployment insurance law
- c) the employer is subject to the Federal Unemployment Tax Act (FUTA)

- d) agricultural employers and those hiring domestic workers are also included as long as they meet the requirements of the Montana unemployment insurance laws

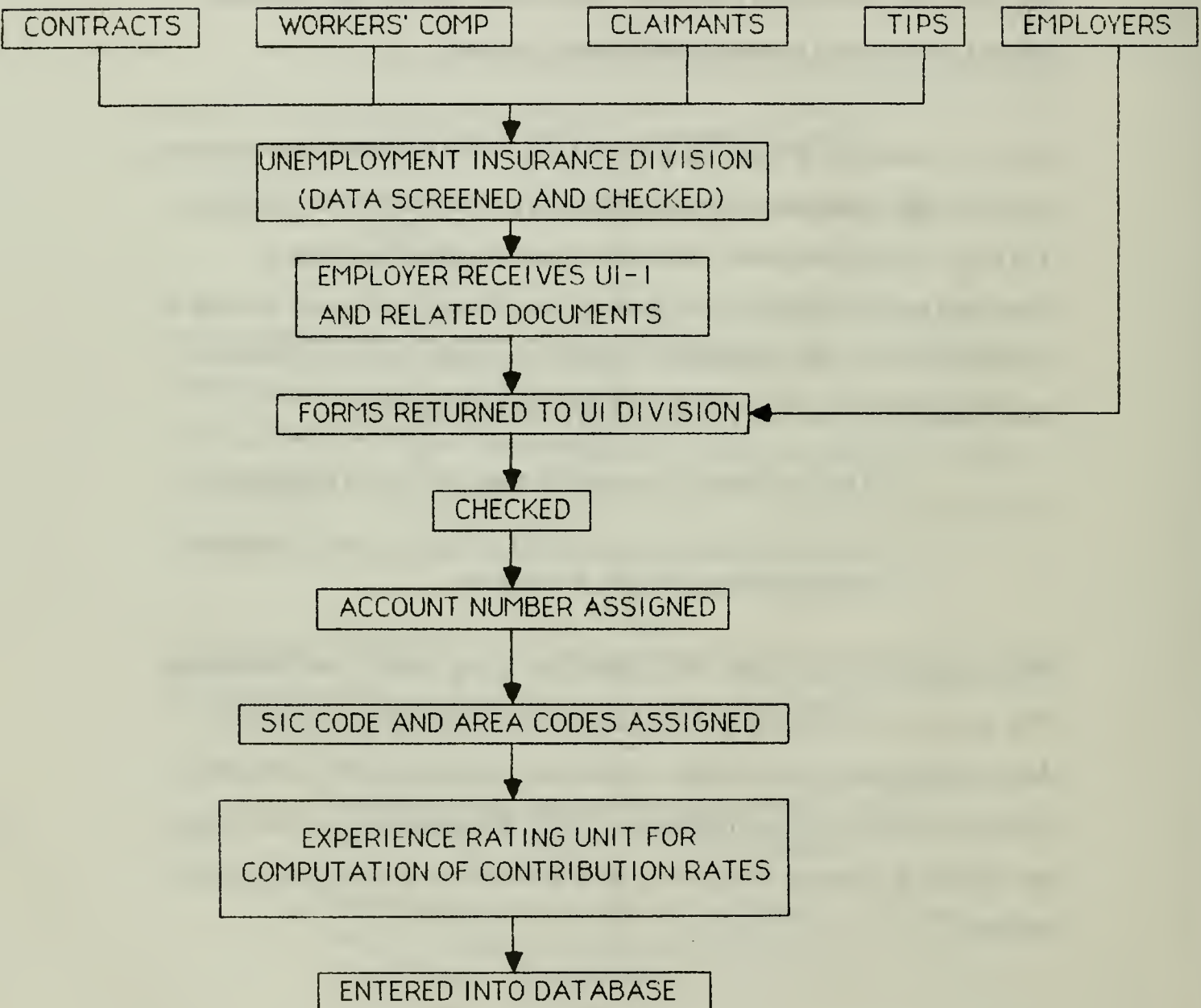
Each employer is assigned an individual account number and a file is activated and maintained throughout the period the employer remains subject to the state unemployment insurance laws.

After the selection of a period of time from which to draw new businesses for the study, guidelines were established for the inclusion of employers. The block of unemployment insurance account numbers considered contained account numbers assigned to established businesses as well as those assigned to new businesses. Since the study was to include new businesses only, a new business was defined as follows:

- 1) a new business is one which does not have a predecessor
- 2) it does not have or has not had an unemployment insurance account number, active or inactive

Thus, a new business is one which was previously nonexistent in Montana. The use of this definition of a new business eliminates the inclusion of businesses arising from mergers, takeovers, splits and other ownership changes, as well as those businesses which are seasonal (i.e. that employ and lay off workers to meet work requirements of a predictable, cyclical nature).

Identification and Processing of New Businesses



As illustrated by this flow chart, new businesses are identified through information received from various sources.

1. Workers' Compensation new employer list
2. FUTA certification
3. Unemployed workers filing for unemployment insurance benefits
4. Field contacts and audits by the Department of Labor and Industry
5. Awarding of contracts from state and federal agencies
6. Anonymous tips
7. Employers

The names generated from these sources are screened to avoid contacting employers who have an assigned account number or employers already involved in the registration process. This is done by comparing the information obtained against information in the unemployment insurance contribution database. This information is checked against the federal identification number listing, "Doing Business As" and "Employer Name" listings. If the result of these searches is negative then the employer is sent an Employer Registration form (UI - 1), informational letter and any other forms that may be applicable.

Some employers receive forms from the Department of Commerce's "one-stop licensing center." This department assists the employer in obtaining the proper licenses, applications for federal employer identification numbers and state unemployment insurance account numbers, and general information useful to the "first time" employer.

When the UI-1 is returned it is checked for completeness of information. If the search for an established account number is negative, an account number is assigned. A Standard Industrial Classification code and county code are assigned by the Research and Analysis Bureau.

The UI-1's are routed to the Experience Rating Unit for assignment of contribution rates. The information and account number is then entered into the database by the New Accounts section.

Registration Lag Time

To conduct the next phase of this study, all new accounts established between June 1, 1984 and June 30, 1986 were examined. Each of the 8,433 were reviewed and a decision was made whether or not the business met the criteria for inclusion as a new business. The data gathered during the first phase of this study included county code, SIC code, the date the registration form (UI-1) was received, the date the information was input into the unemployment insurance contribution database files, the date the employer became subject to Montana unemployment insurance laws, and the number of employees that the employer anticipated hiring.

Information was gathered concerning the amount of lag time, or set up time, between the date employment began and the date the information on the new business was input into the unemployment insurance database. Also studied was the lag time between receipt of the employer registration forms and the date the information was input into the database. Over 4,000 files were reviewed. There were 361 files having beginning employment dates subsequent to the database input date. These files were not used in the calculations because the negative lag times would have distorted the results. Files which did not contain the information needed for this lag time study (618) were not included.

Overall lag time (subject date to input date) ranged from one day to 2,248 days, with the average number of days elapsing between the subject date

and input date being 134.74 days. As evidenced by the chart below, the Unemployment Insurance Division is meeting its goal of a minimum of 80% of determinations of employer liability being made within 180 days.

<u>Days Elapsed From Subject Date to Input</u>	<u>Number Employers Registering</u>	<u>% of Total</u>
1-90	2,728	66.5
91-180	715	17.4
181-270	209	5.1
271-365	118	2.9
366-545	138	3.4
546+	<u>193</u>	<u>4.7</u>
	4,101	100.0

Lag time between the day the employer registration form was received and the day this information was input averaged 8.24 days, ranging from one day to 216 days. 59% of the forms were processed within five days of receipt, and 85% were processed within 10 days of receipt.

(Note: These lag time data include weekends and holidays.)

New Businesses by Industry and County

An examination of new businesses registering with the Unemployment Insurance Division shows the dominance of the Services industry. As can be seen on the following chart Services comprised 32% of all new businesses started between June 1984 and June 1986. The composition of Montana businesses is reflecting the national trend of dominance by Services.

Second to Services was Construction with 18% of total new businesses. Of the 910 businesses registered, 365 were in building construction, 85 in road construction, and 460 in special trade contractors.

The third largest group of new businesses was the Retail Trade division, with 874 new businesses (17.5% of all new businesses).

The industry with the least new businesses (after Nonclassified) was Mining at 121 new businesses or 2%. These low figures are a representation of the flagging oil and gas exploration in Montana.

More new businesses were started in Yellowstone County than any other (17.5%) with Flathead County second (11.5%) and Missoula County third (8.9%). Yellowstone ranked first in all industries except Agriculture (01-09), Mining (10-14), and Manufacturing (20-39). Flathead captured the lead in Agriculture and Manufacturing and Yellowstone tied with Richland County for first place in Mining.

It should be noted that only a small portion of Montana's agricultural entities are included in the Agricultural industry division due to very selective unemployment insurance coverage laws.

Number of New Businesses Registered by Industry* and County

County	Code	Total	01- 09	10- 14	15- 17	20- 39	40- 49	50- 51	52- 59	60- 67	70- 89	99
Beaverhead	001	50	5	2	5	4	3	1	9	2	19	0
Big Horn	003	39	1	1	14	0	1	0	9	3	10	0
Blaine	005	15	0	1	2	0	4	0	1	1	5	1
Broadwater	007	28	3	1	6	3	2	1	4	4	4	0
Carbon	009	53	3	2	9	3	3	5	10	1	16	1
Carter	011	8	0	0	0	0	4	0	1	2	1	0
Cascade	013	389	9	3	73	11	23	27	79	27	136	1
Choteau	015	23	6	0	5	0	3	1	2	2	4	0
Custer	017	58	2	0	6	4	4	3	12	4	22	1
Daniels	019	10	2	0	1	1	2	0	0	0	4	0
Dawson	021	31	1	2	6	0	3	1	6	2	10	0
Deer Lodge	023	27	0	1	5	2	1	0	5	2	11	0
Fallon	025	18	1	3	2	0	4	1	3	0	4	0
Fergus	027	58	5	0	8	8	3	4	8	3	19	0
Flathead	029	574	26	0	126	39	41	18	116	46	159	3
Gallatin	031	397	20	2	68	28	12	22	68	28	143	6
Garfield	033	2	1	0	0	0	0	0	0	0	1	0
Glacier	035	39	3	6	10	1	2	0	8	1	7	1
Golden Valley	037	1	0	0	1	0	0	0	0	0	0	0
Granite	039	25	2	2	6	4	1	1	4	0	5	0
Hill	041	72	3	0	14	3	3	2	8	8	28	3
Jefferson	043	25	1	2	1	2	1	0	8	3	7	0
Judith Basin	045	7	0	0	2	1	1	0	0	0	3	0
Lake	047	99	2	1	26	10	3	2	27	4	21	3
Lewis & Clark	049	294	10	6	51	20	4	6	51	21	123	2
Liberty	051	7	1	0	1	1	0	0	3	1	0	0
Lincoln	053	106	6	1	19	23	11	3	17	1	25	0
McCone	055	6	0	0	0	1	2	0	0	0	2	1
Madison	057	44	6	5	7	0	3	0	9	2	11	1
Meagher	059	11	1	1	3	1	0	0	2	0	3	0
Mineral	061	29	3	0	9	7	2	0	3	1	4	0
Missoula	063	445	12	3	66	26	32	23	72	27	181	3
Musselshell	065	13	0	2	3	0	1	0	4	0	3	0
Park	067	87	5	2	16	8	2	4	19	3	25	3
Petroleum	069	3	0	1	0	0	0	0	2	0	0	0
Phillips	071	16	0	0	3	0	2	1	6	2	2	0
Pondera	073	26	3	1	3	1	1	1	6	2	8	0
Powder River	075	10	1	0	2	0	3	1	2	0	1	0

Number of New Businesses Registered by Industry* and County

County	Code	Total	01-09	10-14	15-17	20-39	40-49	50-51	52-59	60-67	70-89	99
Howell	077	26	2	2	4	3	3	0	3	1	8	0
Prarie	079	6	0	0	1	0	1	0	2	0	2	0
avalli	081	145	4	1	34	17	7	5	17	8	51	1
ichland	083	67	0	14	5	1	15	3	11	1	17	0
oosevelt	085	37	0	7	10	0	5	2	2	1	8	2
osebud	087	48	2	1	13	6	2	1	9	0	13	1
anders	089	53	1	1	9	13	4	2	9	0	14	0
heridan	091	27	0	2	7	0	2	1	6	2	7	0
ilver Bow	093	133	4	6	20	6	5	3	32	2	53	2
tillwater	095	18	1	0	7	0	1	1	5	0	3	0
weet Grass	097	18	3	0	4	1	1	0	3	1	5	0
eton	099	29	4	1	3	0	1	1	5	1	12	1
oole	101	34	3	7	1	0	3	2	5	0	11	2
reasure	103	1	0	0	1	0	0	0	0	0	0	0
alley	105	60	4	2	10	2	3	2	19	1	17	0
heatland	107	4	0	0	0	0	0	0	1	1	2	0
ibaux	109	0	0	0	0	0	0	0	0	0	0	0
ellowstone	111	870	18	14	146	37	63	73	148	67	294	10
nclassified	999	258	6	12	56	6	18	37	13	9	53	48
total		4,979	196	121	910	304	321	261	874	298	1,597	97

* Industry Codes and Titles

01-09	Agriculture, Forestry and Fishing
10-14	Mining
15-17	Construction
20-39	Manufacturing
40-49	Transportation, Communications, and Public Utilities
50-51	Wholesale Trade
52-59	Retail Trade
60-67	Finance, Insurance and Real Estate
70-89	Services
99	Unclassifiable

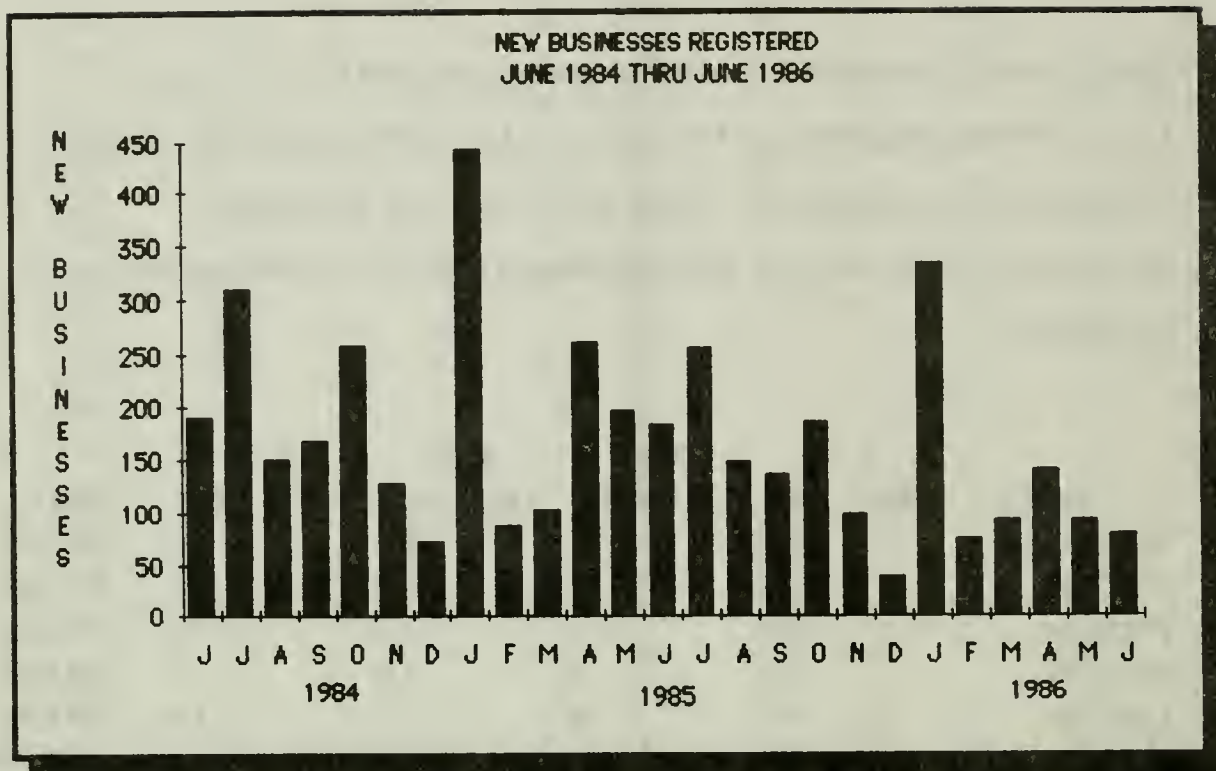
Comparison of New Businesses to Population by County

These counties represent the seven largest (by population) in Montana. Their combined population of 440,709, based on 1980 census data, is 56% of Montana's total population. There were 3,102 new businesses registered in these counties, which represents 62% of all new businesses registered.

County	# of New Bus.	% of All N. B.	% of Total Bus	% of Total Pop.	Pop.
Yellowstone	870	17	3.3	14	108,035
Flathead	574	12	2.2	7	51,966
Missoula	445	9	1.7	10	76,016
Gallatin	397	8	1.5	5	42,865
Cascade	389	8	1.5	10	80,696
Lewis & Clark	294	6	1.1	5	43,039
Silver Bow	133	3	0.5	5	38,092

Yellowstone County ranks first in population and number of new businesses. Missoula and Cascade Counties each have 10% of the population and 9% and 8% of total new businesses, respectively. Although Flathead has only 7% of Montana's population, 12% of the new businesses registered from June, 1984 through June, 1986 were in this county. The majority of the new businesses in Flathead were in Construction, Retail Trade and Services as shown in the 'Number of New Businesses Registered by Industry and County' table.

New Businesses by Month



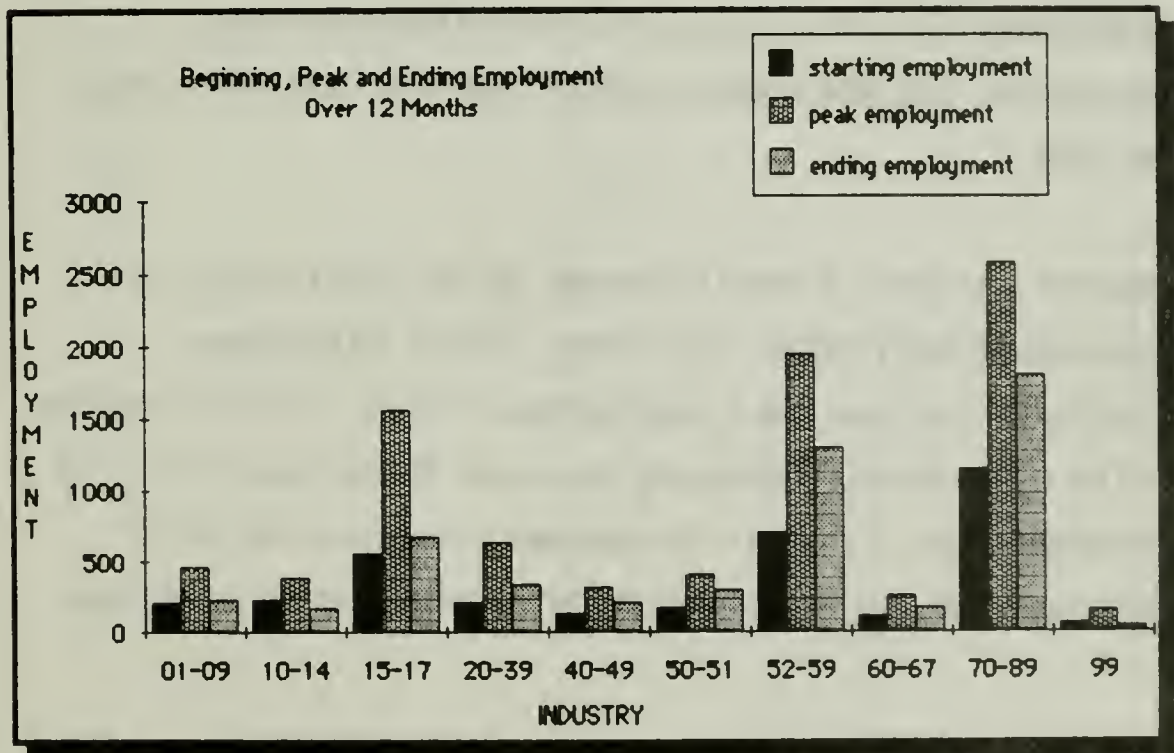
The registration of new businesses in Montana appears to be seasonal with the largest number registering in January and the smallest number of registrations in December of each year. The beginning month in each quarter (January, April, July, and October) reflects a noticeable increase in registrations over the preceding month.

The number of new businesses started in the first quarter of 1986 is significantly lower than in the corresponding quarter in 1985 - a 20.5% decrease. This is also true of the third and fourth quarters of 1985 when compared to 1984. The number of businesses in third quarter 1985 was 15% less than third quarter 1984. Fourth quarter 1985 was 30% less than fourth quarter 1984.

Employment Levels of New Businesses

In this portion of the study, new businesses that registered between June, 1984 and June, 1985 were separated and placed in a datofile in order to track their employment size over a 12 month period. There were 1,920 employer records studied.

For each business, the number of employees at the start date and end date of the 12 month period was recorded. The peak employment for this 12 month period was also recorded. The data was then aggregated by industry.



The largest gain in employment over the 12 month period was in Wholesale and Retail Trade with each showing more than an 80% gain. Next came Manufacturing with a 61.6% gain.

Mining (10-14) and Unclassifiable (99) were the categories showing a decrease in number of employees over the 12 month period, with all others posting a gain. Oil and gas exploration has declined in Montana since 1984, with the daily active rig count dropping from the low 30s in 1984 to two to four rigs in July, 1986.

Manufacturing (20-39) increased 200% from the beginning employment to the peak. Construction (15-17) peaked 177% above the beginning employment level. Unclassifiable (99) showed the largest drop in employment from peak to ending level at 198% with Construction second at 130%.

Montana is the state of small businesses. Of the 1,920 records in the employment levels portion of this study, 1,797 of the businesses registering employed five or fewer persons to start with. This comprises 93.6% of the records. Additionally, there were 90 businesses in the 6-10 employees size, 23 in the 11-25 employees size, eight in the 26-50 employees size, and two businesses starting with 51 or more employees.

By the end of 12 months, these figures had improved. 123 were now in the 6-10 range, up 33 businesses; 67 were in the 11-25 range, up 44; nine more were in the 26-50 range; and three more in the 51 and over range.

Account Cancellation

If the employer has filed "none" reports (no payroll) for eight consecutive quarters the account is cancelled and the employer is notified. However, the account may be kept active if notification to do so is received from the employer or a field representative of the Unemployment Insurance Division.

Accounts can also be cancelled when a business is sold, when it reorganizes through incorporation or merger, when it ceases to employ workers but remains active, or otherwise fails to meet coverage requirements.

Accounts are cancelled when employers go out of business. Notification of a closure or selling of a business is often received by means of the UI-5, Employer's Quarterly Wage Report, which contains a section specifically for reporting the closure or the selling of the reporting business. Notifications are also received by telephone and in writing, from the employers and the field representatives.

Cancelled New Businesses by Industry* and County

County	Code	Total	01- 09	10- 14	15- 17	20- 39	40- 49	50- 51	52- 59	60- 67	70- 89	99
Beaverhead	001	13	1	0	2	2	0	0	2	0	6	0
Big Horn	003	11	0	0	3	0	0	0	5	0	3	0
Blaine	005	4	0	1	0	0	2	0	0	0	1	0
Broadwater	007	6	1	0	1	2	0	1	1	0	0	0
Carbon	009	16	3	1	0	0	2	0	4	0	5	1
Carter	011	2	0	0	0	0	2	0	0	0	0	0
Cascade	013	95	4	0	21	1	4	6	20	8	31	0
Choteau	015	5	2	0	2	0	1	0	0	0	0	0
Custer	017	20	1	0	4	2	1	1	3	2	5	1
Daniels	019	1	0	0	0	0	0	0	0	0	1	0
Dawson	021	8	1	1	1	0	2	0	1	1	1	0
Deer Lodge	023	9	0	1	1	0	1	0	2	0	4	0
Fallon	025	5	0	2	0	0	1	1	1	0	0	0
Fergus	027	15	2	0	2	2	1	2	2	2	2	0
Flathead	029	176	8	0	41	13	12	2	31	16	51	2
Gallatin	031	95	3	0	22	11	3	7	16	3	27	3
Garfield	033	0	0	0	0	0	0	0	0	0	0	0
Glacier	035	14	0	1	6	0	1	0	3	0	2	1
Golden Valley	037	0	0	0	0	0	0	0	0	0	0	0
Granite	039	8	0	0	3	4	0	0	0	0	1	0
Hill	041	20	2	0	5	1	1	0	1	2	7	1
Jefferson	043	9	1	1	1	1	0	0	2	1	2	0
Judith Basin	045	3	0	0	1	0	0	0	0	0	2	0
Lake	047	29	0	0	9	2	1	0	7	1	6	3
Lewis & Clark	049	87	3	1	13	6	2	0	16	7	37	2
Liberty	051	1	0	0	1	0	0	0	0	0	0	0
Lincoln	053	31	2	0	4	5	4	0	8	0	8	0
McCone	055	4	0	0	0	0	2	0	0	0	1	1
Madison	057	13	1	2	2	0	0	0	5	0	2	1
Meagher	059	4	0	1	2	0	0	0	0	0	1	0
Mineral	061	11	2	0	4	1	1	0	2	0	1	0
Missoula	063	116	3	1	21	5	15	4	17	7	41	2
Musselshell	065	6	0	1	1	0	0	0	2	0	2	0
Park	067	24	0	0	6	4	1	1	3	0	7	2
Petroleum	069	0	0	0	0	0	0	0	0	0	0	0
Phillips	071	5	1	0	0	0	1	0	2	0	1	0
Pondera	073	7	2	0	0	0	0	0	4	1	0	0
Powder River	075	2	0	0	1	0	1	0	0	0	0	0

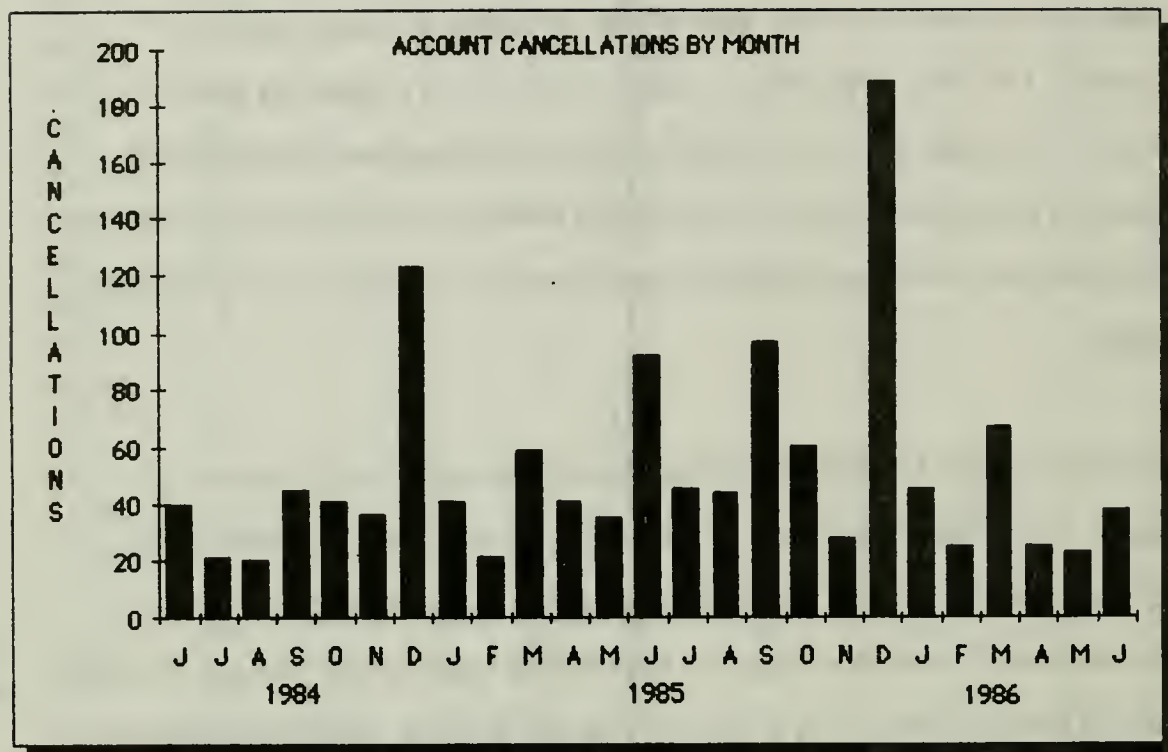
County	Code	Total	01-09	10-14	15-17	20-39	40-49	50-51	52-59	60-67	70-89	99
Powell	077	8	1	0	1	1	1	0	2	0	2	0
Prairie	079	1	0	0	0	0	0	0	0	0	1	0
Ravalli	081	41	3	0	15	2	1	1	5	2	11	1
Richland	083	27	0	10	2	0	5	1	4	0	5	0
Roosevelt	085	12	0	3	3	0	1	0	2	0	2	1
Rosebud	087	20	2	0	5	2	1	0	5	0	4	1
Sanders	089	17	0	0	4	2	2	1	4	0	4	0
Sheridan	091	10	0	1	3	0	0	0	3	0	3	0
Silver Bow	093	44	2	5	4	1	2	2	15	0	13	0
Stillwater	095	5	0	0	3	0	1	0	0	0	1	0
Sweet Grass	097	4	0	0	1	1	0	0	0	0	2	0
Teton	099	10	1	0	2	0	1	0	2	0	3	1
Toole	101	10	1	1	0	0	1	0	1	0	6	0
Treasure	103	0	0	0	0	0	0	0	0	0	0	0
Valley	105	21	2	0	3	1	2	0	8	0	5	0
Wheatland	107	2	0	0	0	0	0	0	1	0	1	0
Wibaux	109	0	0	0	0	0	0	0	0	0	0	0
Yellowstone	111	274	7	4	58	13	18	19	44	20	86	5
Unclassified	999	104	4	2	20	2	12	10	5	3	9	37
Total		1,485	66	40	304	87	110	59	261	76	416	66

* Industry Codes and Titles

01-09	Agriculture, Forestry and Fishing
10-14	Mining
15-17	Construction
20-39	Manufacturing
40-49	Transportation, Communications, and Public Utilities
50-51	Wholesale Trade
52-59	Retail Trade
60-67	Finance, Insurance and Real Estate
70-89	Services
99	Unclassifiable

Of 4,979 new businesses registered from June, 1984 through June, 1986, 1,485 were cancelled on the unemployment insurance employer contribution database file. 28% of the cancelled accounts were in Services (70-89), 20% were in Construction (15-17) and 18% were in Retail Trade (52-59). In the 'Number of New Businesses Registered by Industry and County' table, note that the three industries that showed the most new business registrations were Services, Construction and Retail Trade.

Yellowstone and Flathead Counties showed the most cancellations in nearly every industry. These two counties also showed the most new business registrations. The major exception is Mining (10-14) where Richland and Silver Bow Counties showed the most cancellations. Richland County holds the majority of the oil and gas drilling, which has suffered a catastrophic downturn during recent years and Silver Bow County has lost ground in precious metals mining.



As January appeared to be the most popular month for openings, December appears to be the optimum month for account cancellations. The quarter-ending months (March, June, September) show increases in the number of account cancellations.

Business Deaths Survey

While conducting the last phase of this study it was discovered that the cancelled accounts were not posted in the employer files with a reason for cancellation. The reason for some of the cancellations was found on the Employer's Quarterly Wage Report as there is a section for reporting the closure or selling of a business. Explanations for account cancellations were found and recorded for 514 businesses. Unfortunately, the cause for the rest of the cancellations could not be found by reviewing the unemployment insurance account file.

A questionnaire was mailed to employers whose reason for closing the account couldn't be determined through screening the files. The questionnaire was brief. It asked for the month and year of closure, the basis for cancellation, and had an area for any comments the employer might like to make. This survey was mailed to 969 businesses at the address on file.

In order to keep employer involvement time to a minimum and due to time restraints, addressees were given a choice of reasons for the closure and asked to circle the most appropriate one. Space was provided for writing in an alternative answer.

Due to the variety of answers received, it was decided to combine the responses into six categories:

1. Those who ceased operating, went "out-of-business", or closed the business due to the completion of a short term job, contract, or temporary employment. These included homeowners who contracted out work and people who hired in-home domestic care.
2. Those who sold or reorganized their business. These included mergers and incorporations.
3. Those who ceased employing but did not close. This category was limited to Montana based employers.
4. Those who were not liable to begin with or became not liable due to ceasing to employ Montana workers (while still operating in other states).
5. Other.
6. Still operating, but reason for account cancellation unknown.

Of the 969 businesses surveyed, 334 (34.5%) responded by completing and returning the survey. These responses were combined with the 514 whose reason for cancellation had already been determined.

<u>Category</u>	<u>Reason</u>	<u>No. of Responses</u>	<u>Percent Total</u>
1	Out of business	297	35.0
2	Sold/reorganized	148	17.5
3	Ceased employing	253	29.8
4	Not liable	127	15.0
5	Other	8	0.9
6	Still operating*	<u>15</u>	<u>1.8</u>
		848	100.0

* Business is still operating but reason for account cancellation was not given.

In Category 1, Building Construction (SIC 15) had the most closures with 34, and the most account cancellations in Category 3 with 27 businesses. SIC 17 (Construction - special trade contractors) represented a good portion of account cancellations with 22 in Category 1 and 25 in Category 3.

These two industries fall in the major division of Construction, SICs 15-17. In this division, 910 new businesses were registered (second largest grouping) and 304 accounts were cancelled (second largest grouping). These closures and layoffs reflect the overall slowdown in construction in Montana. Building permits from Montana's seven largest cities indicate about a 20% decline in single family requests for the first half of 1986 as compared to 1985. Commercial construction permits between January and May of 1986 show a 40% drop in value when compared to the same period in 1985.

SIC 88 had 26 business closures, but it is to be expected as this SIC, Private Households, is mostly comprised of in-home nursing care which tends to be for a limited period of time.

Eating and drinking establishments had 20 closures in the survey and 15 businesses falling into Category 2. This division represented 30% of all new businesses registering in the Retail Trade category.

Motor Freight Transportation and Warehousing (SIC 42) showed 18 businesses as closed, and 24 as ceased employing (Category 3).

Business Services (SIC 73) had a strong overall showing: 15 businesses closed, 17 sold or reorganized, and 18 in the "ceased employing" category. This division represented 26% of new businesses in the Services category, SIC 70-89.

"Chain reaction" closures were reported by several former employers. These were owners of companies doing contract work for oil and oil exploration corporations. When these corporations severely curtailed their operations in Montana, the small Montana service companies folded soon after.

In reaction to the changes in Montana's economy, some employers did not close down but chose to lay off the employees they had and started running the business by themselves. Layoffs were the way these employers chose to face and hopefully weather the changes. A little over 29% of those responding stated this was the action they had taken.

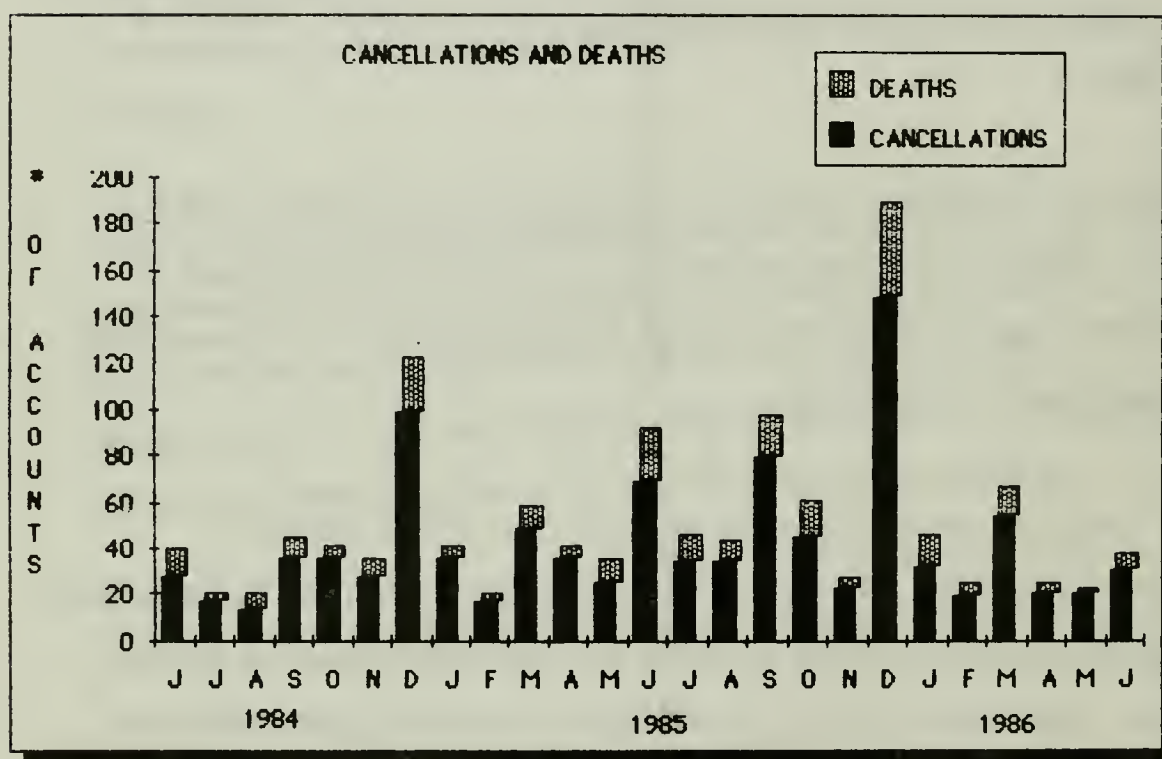
Survival Rate of New Businesses

In an attempt to determine the probable survival rate of new businesses in Montana, a death was defined as an instance when a business closes its doors permanently. At the beginning of the study, it was assumed that most account cancellations were the result of a business death. After the survey responses of the employers were tallied, it was discovered that only 35% of the cancelled accounts were actually business deaths. The rest were cancelled due to sale, merger, incorporation or cessation of liability.

The new businesses who started employing between January, 1984 and July, 1984 were tracked over 24 months to discover how long each business had lasted. Of the 979 new businesses, 861 or 87.9% were still in business after two years.

If this study had used business closures with all other account cancellations, the survival rate would have dropped to 70%. The difference between an account cancellation and a business death becomes critical here. Cancellation from the unemployment insurance system can be for numerous reasons, not only a business death.

The following graph shows the relationship of deaths to cancellations. The solid black columns indicate cancellations other than deaths. The dotted part of each column represents business deaths. In most months, deaths constitute a marginal portion of total cancellations.



The ES-202 Employment, Wages and Contributions Report

The ES-202 Employment, Wages and Contributions Report is a compilation of employment, wage and contribution data from employers' quarterly unemployment insurance contribution (UI-5) reports. The report is produced five months after the end of each calendar quarter for that quarter, and summarizes reports submitted by employers subject to the Montana unemployment insurance law. Also included in the report are similar data for federal government employees in Montana.

The data is published quarterly and provides a distribution of total covered employment, wages and contributions according to the area, ownership, and industry classifications of the reporting employers. Annual averages are published directly after the fourth quarter data is published.

The ES-202 report represents the largest universe of employment and wage information available on a regular basis in the country and is an accurate indicator of the present state of the labor market.

When an account is established on the tax file but the employer has not submitted quarterly employment and wage data by the time the information is extracted for use in the ES-202 report (usually two to four weeks after the end of the quarter), the employment and wage data is estimated on the report using average employment and wages for that industry and county.

When a business dies or stops reporting due to cessation of coverage, but has not yet been inactivated on the tax file by the time the information is extracted for use in the ES-202 report, then the employment and wage data is estimated on the report using that firm's historical data.

Technically, an employer's employment and wage data could be estimated for eight quarters since the unemployment insurance system carries a delinquent reporter for that long before automatic cancellation. However, the ES-202 report system contains an internal check that allows an employer's data to be estimated for two quarters only. If no actual data has been supplied to the tax file from the employer by the third quarter, then the account is dropped from the ES-202 report.

Relationship of Subject Date-Input Date Lag Time to the ES-202 Report

The businesses selected for review during this study were registered with the unemployment insurance system during the time period June, 1984 through June, 1986 and, therefore, were included in the 1984, 1985 and 1986 ES-202 reports. The table below indicates the month and year the businesses studied were actually subject. A substantial number of businesses were subject as far back as 1979, but didn't enter the system until second quarter 1985 at the earliest. Of the 4,972 businesses registered, 11 should have been included in the 1979 ES-202 reports, 19 should have been in 1980, 25 in 1981, 49 in 1982 and 139 in 1983. Taken in this context, 'new business' is more accurately 'new to the system'.

Although some businesses can evade coverage for years, bear in mind that only 14.5% of the new businesses registered over this two year span were delinquent. In fact, 9.6% of the lagging new businesses became subject in the first six months of 1984 leaving only 4.9% distributed throughout

1979-1983

	1979	1980	1981	1982	1983	1984	1985	1986
January	9	16	16	23	54	142	442	334
February	1	0	0	2	3	26	86	74
March	0	0	0	1	4	33	102	93
April	0	1	1	4	13	149	259	140
May	0	1	0	3	4	128	195	92
June	1	0	1	2	6	191	183	79
July	0	0	3	5	16	310	255	32
August	0	0	2	2	6	151	147	3
September	0	0	0	2	9	169	136	1
October	0	0	2	3	15	258	185	0
November	0	0	0	1	7	127	97	1
December	0	1	0	1	2	71	38	0

SUMMARY

In response to a lack of statistical information concerning business characteristics in Montana, the Department of Labor and Industry contracted with the United States Bureau of Labor Statistics to conduct a Business Birth-Death Study. The study was conducted over a three month period starting in July, 1986. Data was drawn from the unemployment insurance account files of employers registered with the Montana Unemployment Insurance Division of the Department of Labor and Industry between June 1984 and June 1986. Purposes of the study were to:

1. identify characteristics of new businesses at birth, during their lifetime, and at their death;
2. determine the survival rate of new businesses;
3. examine the procedures used by the Unemployment Insurance Division when processing new business registrations and cancellations.

A new business was defined as a business not previously in existence. Changes of ownership, reorganizations, and businesses reopening after a temporary closure were excluded. Of the approximately 8,400 files reviewed, this definition pared the number of businesses studied to 4,979 businesses. Not all of the businesses were included in all phases of the study. Some records were excluded due to incomplete or missing data.

NEW BUSINESSES BY COUNTY AND INDUSTRY

Yellowstone County, the most populated county in the state, had the most new business registrations. Flathead County, fourth most populated, ranked second in new business registrations as tourism expanded to a year-round industry. Missoula County was third in population and new business registrations, while Cascade County, second in population, ranked fifth in new business registrations.

Most new business registrations are in the Services industries, followed by Construction and Retail Trade industries.

EXAMPLE OF BUSINESSES BY INDUSTRY

<u>Services</u>	<u>Construction</u>	<u>Retail Trade</u>
Hotels	Building construction	Food stores
Auto repair	General contractors	Eating & drinking places
Health services	Special trade	Clothing stores
Legal services	contractors	Service stations
Amusement and recreation		Home furnishings

The Services industry is becoming predominant in Montana, as is true nationally. Services represented 32% of all new business registrations studied. Construction and Retail Trade each carried 18% of the total.

Unclassified, Agriculture, and Mining had the least amount of new business registrations. Unclassified is a temporary category and is used when registration forms contain insufficient information concerning the employer's business. Agriculture includes only a small portion of

Montana's agricultural businesses. Many farmers and ranchers fail to meet the requirements of Montana's unemployment insurance laws and are not required to register. During the study period, mining experienced a downturn in employment and number of businesses.

NEW BUSINESS SURVIVAL RATE

Perhaps the most encouraging data presented in this study are the new business survival rates. Of the newly registered businesses studied, 90% remained in business at least twelve months after their start-up date.

Only new businesses were included in the calculation of this survival rate. Not included are businesses acquired through purchases or mergers, or businesses considered new due to reorganization. Also, only true deaths were counted in the business death rate calculation. Excluded were changes of ownership and businesses which were cancelled from the unemployment insurance file but continued operations. Thus, the survival rate calculated here may not be comparable to other business birth-death studies.

NEW BUSINESS EMPLOYMENT TRENDS

The state exceeds the national average for percentage of small businesses since 97.9% of Montana's new businesses employ ten or fewer employees. Small though they are, these employers were responsible for creating 82.5% of the increase in jobs among the businesses studied.

In the growth category, businesses in the Wholesale Trade, Retail Trade, and Manufacturing industries showed the largest growth in employment in the first twelve months of existence. Of these three categories, only Retail Trade was in the top three for new business registrations.

On the opposite side, the Mining industry was the only major industry to show a decrease in employment over the twelve month study period. However, this result cannot be entirely unexpected when considering the downward trend experienced regionally by this industry over the past year.

CANCELLED BUSINESSES BY COUNTY AND INDUSTRY

Cancellations have a direct relationship to registrations. The counties with the most business cancellations - Yellowstone, Flathead, and Missoula - also had the most new business registrations. As might be expected, these counties are the most populous. There were fewer cancellations in the less populous, agricultural based counties, but they also experienced far fewer new business registrations.

Services, Construction, and Retail Trade were the industries with the most new business cancellations. These industries also had the most new business registrations. Mining, Unclassified, and Agriculture had the least amount of cancellations and registrations.

REASONS FOR CANCELLATION

Businesses may be cancelled from the active unemployment insurance account files for a variety of reasons. When a business has its unemployment insurance account file cancelled, it does not necessarily mean that the business has "died". Businesses cancelled from the unemployment insurance database during the study period were surveyed in an attempt to ascertain the reason for the cancellation and to get an idea of which industries were showing the most losses.

The majority of the respondents, 35%, fell into the out-of-business category. These businesses permanently closed their doors due to financial, managerial, or other (undisclosed) problems.

The 'ceased employing' category held 29.8% of the businesses surveyed. These businesses laid off their employees and continued functioning as well as they could on their own. Reorganizations (incorporations, mergers, or sales) accounted for 17.5% of the survey total.

EMPLOYMENT AND WAGE STATISTICAL INFORMATION

Employment and wage data aggregated by county and industry concerning new businesses and all businesses covered by unemployment insurance are available in the quarterly and annual Employment, Wages and Contributions publications. Also included are data for state, local, and federal government. This information provides an accurate insight into the economic activity of Montana by illustrating the present conditions of the business community. Current and back issues may be obtained by contacting the Montana Department of Labor and Industry.



RESEARCH & ANALYSIS BUREAU
EMPLOYMENT POLICY DIVISION
DEPARTMENT OF LABOR & INDUSTRY
P.O. BOX 1728
HELENA, MONTANA 59624

POSTAGE AND FEES PAID
EMPLOYMENT SECURITY MAIL
LAB 441

OFFICIAL BUSINESS

BULK RATE

600 copies of this publication were produced at a unit cost of \$1.12 per copy, for a total cost of \$669.45 which includes \$141.45 for printing and \$528.00 for distribution